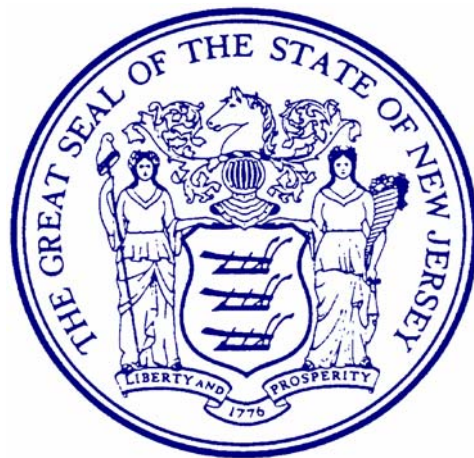


**RIH ACQUISITIONS NJ, LLC (Atlantic City Hilton)**  
**QUARTERLY REPORT**  
**FOR THE QUARTER ENDED SEPTEMBER 30, 2006**

**SUBMITTED TO THE  
CASINO CONTROL COMMISSION  
OF THE  
STATE OF NEW JERSEY**



**DIVISION OF FINANCIAL EVALUATION  
REPORTING MANUAL**

# RIH ACQUISITIONS NJ, LLC (Atlantic City Hilton)

## BALANCE SHEETS

AS OF SEPTEMBER 30, 2006 AND 2005

(UNAUDITED)  
(\$ IN THOUSANDS)

Line (a)	Description (b)	Notes	2006 (c)	2005 (d)
	<u>ASSETS:</u>			
	Current Assets:			
1	Cash and Cash Equivalents.....		\$14,705	\$16,880
2	Short-Term Investments.....		0	0
3	Receivables and Patrons' Checks (Net of Allowance for Doubtful Accounts - 2006, \$1,878; 2005, \$2,070).....	Note 4	61,873	35,024
4	Inventories .....		2,169	1,533
5	Other Current Assets.....		7,115	2,700
6	Total Current Assets.....		85,862	56,137
7	Investments, Advances, and Receivables.....	Note 5	12,113	10,495
8	Property and Equipment - Gross.....		401,376	384,685
9	Less: Accumulated Depreciation and Amortization.....		(25,948)	(7,069)
10	Property and Equipment - Net.....	Note 6	375,428	377,616
11	Other Assets.....	Note 7	82,861	86,106
12	Total Assets.....		\$556,264	\$530,354
	<u>LIABILITIES AND EQUITY:</u>			
	Current Liabilities:			
13	Accounts Payable.....		\$11,428	\$7,117
14	Notes Payable.....		0	0
	Current Portion of Long-Term Debt:			
15	Due to Affiliates.....		0	0
16	External.....		82	0
17	Income Taxes Payable and Accrued.....		34	488
18	Other Accrued Expenses.....	Note 8	20,387	13,055
19	Other Current Liabilities.....	Note 9	3,858	3,433
20	Total Current Liabilities.....		35,789	24,093
	Long-Term Debt:			
21	Due to Affiliates.....		0	0
22	External.....		169	0
23	Deferred Credits .....		0	0
24	Other Liabilities.....		0	0
25	Commitments and Contingencies.....		0	0
26	Total Liabilities.....		35,958	24,093
27	Stockholders', Partners', or Proprietor's Equity.....		520,306	506,261
28	Total Liabilities and Equity.....		\$556,264	\$530,354

\* Prior year amounts changed to conform to current year presentation

The accompanying notes are an integral part of the financial statements.

Valid comparisons cannot be made without using information contained in the notes.

# RIH ACQUISITIONS NJ, LLC (Atlantic City Hilton)

## STATEMENTS OF INCOME

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2006 AND 2005

(UNAUDITED)  
(\$ IN THOUSANDS)

Line (a)	Description (b)	Notes	2006 (c)	2005* (d)
	Revenue:			
1	Casino.....		\$250,942	\$137,095
2	Rooms.....		17,684	11,395
3	Food and Beverage.....		33,678	19,534
4	Other.....		9,627	3,532
5	Total Revenue.....		311,931	171,556
6	Less: Promotional Allowances.....		87,236	43,997
7	Net Revenue.....		224,695	127,559
	Costs and Expenses:			
8	Cost of Goods and Services.....		145,050	82,136
9	Selling, General, and Administrative.....		34,675	19,060
10	Provision for Doubtful Accounts.....		1,322	20
11	Total Costs and Expenses.....		181,047	101,216
12	Gross Operating Profit.....		43,648	26,343
13	Depreciation and Amortization.....		15,620	7,583
	Charges from Affiliates Other than Interest:			
14	Management Fees.....		0	0
15	Other.....		2,987	144
16	Income (Loss) from Operations.....		25,041	18,616
	Other Income (Expenses):			
17	Interest Expense - Affiliates.....		0	0
18	Interest Expense - External.....		(64)	0
19	CRDA Related Income (Expense) - Net.....		(985)	(580)
20	Nonoperating Income (Expense) - Net.....		458	420
21	Total Other Income (Expenses).....		(591)	(160)
22	Income (Loss) Before Taxes and Extraordinary Items.....		24,450	18,456
23	Provision (Credit) for Income Taxes.....		1,601	393
24	Income (Loss) Before Extraordinary Items.....		22,849	18,063
25	Extraordinary Items (Net of Income Taxes - 2006, \$0; 2005, \$0).....		0	0
26	Net Income (Loss).....		\$22,849	\$18,063

\*Represents operations from 4/26/05 to 9/30/05. \*\* 2005 changed to conform to current year presentation

The accompanying notes are an integral part of the financial statements.

Valid comparisons cannot be made without using information contained in the notes.

# RIH ACQUISITIONS NJ, LLC (Atlantic City Hilton)

## STATEMENTS OF INCOME

FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2006 AND 2005

(UNAUDITED)  
(\$ IN THOUSANDS)

Line (a)	Description (b)	Notes	2006 (c)	2005 (d)
	Revenue:			
1	Casino.....		\$87,276	\$83,892
2	Rooms.....		6,630	6,928
3	Food and Beverage.....		12,317	12,509 *
4	Other.....		3,729	2,174 *
5	Total Revenue.....		109,952	105,503
6	Less: Promotional Allowances.....		31,469	28,245
7	Net Revenue.....		78,483	77,258
	Costs and Expenses:			
8	Cost of Goods and Services.....		50,866	49,367 *
9	Selling, General, and Administrative.....		10,778	10,162 *
10	Provision for Doubtful Accounts.....		370	(38)
11	Total Costs and Expenses.....		62,014	59,491
12	Gross Operating Profit.....		16,469	17,767
13	Depreciation and Amortization.....		5,683	5,311 *
	Charges from Affiliates Other than Interest:			
14	Management Fees.....		0	0
15	Other.....		991	144 *
16	Income (Loss) from Operations.....		9,795	12,312
	Other Income (Expenses):			
17	Interest Expense - Affiliates.....		0	0
18	Interest Expense - External.....		(54)	0
19	CRDA Related Income (Expense) - Net.....		96	(356) *
20	Nonoperating Income (Expense) - Net.....		159	225 *
21	Total Other Income (Expenses).....		201	(131)
22	Income (Loss) Before Taxes and Extraordinary Items.....		9,996	12,181
23	Provision (Credit) for Income Taxes.....		314	660
24	Income (Loss) Before Extraordinary Items.....		9,682	11,521
	Extraordinary Items (Net of Income Taxes -			
25	2006, \$0; 2005, \$0).....		0	0
26	Net Income (Loss).....		\$9,682	\$11,521

\* Prior year amounts changed to conform to current year presentation.

The accompanying notes are an integral part of the financial statements.  
Valid comparisons cannot be made without using information contained in the notes.

# RIH ACQUISITIONS NJ, LLC (Atlantic City Hilton)

## STATEMENTS OF CHANGES IN PARTNERS' OR PROPRIETOR'S EQUITY

FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2005  
AND THE NINE MONTHS ENDED SEPTEMBER 30, 2006

(UNAUDITED)  
(\$ IN THOUSANDS)

Line (a)	Description (b)	Notes	Contributed Capital (c)	Accumulated Earnings (Deficit) (d)	<u>          </u> <u>          </u> <u>          </u> (e)	Total Equity (Deficit) (f)
1	Balance, December 31, 2004.....					\$0
2	Net Income (Loss) - 2005.....			10,776		10,776
3	Capital Contributions.....		486,681			486,681
4	Capital Withdrawals.....					0
5	Partnership Distributions.....					0
6	Prior Period Adjustments.....					0
7	_____					0
8	_____					0
9	_____					0
10	Balance, December 31, 2005.....		486,681	10,776	0	497,457
11	Net Income (Loss) - 2006.....			22,849		22,849
12	Capital Contributions.....					0
13	Capital Withdrawals.....					0
14	Partnership Distributions.....					0
15	Prior Period Adjustments.....					0
16	_____					0
17	_____					0
18	_____					0
19	Balance, June 30, 2006.....		\$486,681	\$33,625	\$0	\$520,306

The accompanying notes are an integral part of the financial statements.  
Valid comparisons cannot be made without using information contained in the notes.

# RIH ACQUISITIONS NJ, LLC (Atlantic City Hilton)

## STATEMENTS OF CASH FLOWS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2006 AND 2005

(UNAUDITED)  
(\$ IN THOUSANDS)

Line (a)	Description (b)	Notes	2006 (c)	2005 (d)
1	CASH PROVIDED (USED) BY OPERATING ACTIVITIES..		\$37,031	\$30,175
	CASH FLOWS FROM INVESTING ACTIVITIES:			
2	Purchase of Short-Term Investments .....		0	0
3	Proceeds from the Sale of Short-Term Investments .....		0	0
4	Cash Outflows for Property and Equipment.....		(7,487)	(5,697)
5	Proceeds from Disposition of Property and Equipment.....		0	96
6	CRDA Obligations .....		(2,909)	(678) *
7	Other Investments, Loans and Advances made.....		0	0
8	Proceeds from Other Investments, Loans, and Advances .....		0	0
9	Cash Outflows to Acquire Business Entities.....		0	15,734 *
10			0	0
11			0	0
12	Net Cash Provided (Used) By Investing Activities.....		(10,396)	9,455
	CASH FLOWS FROM FINANCING ACTIVITIES:			
13	Proceeds from Short-Term Debt .....		0	0
14	Payments to Settle Short-Term Debt.....		(45)	0
15	Proceeds from Long-Term Debt .....		0	0
16	Costs of Issuing Debt.....		(65)	0
17	Payments to Settle Long-Term Debt.....		0	0
18	Cash Proceeds from Issuing Stock or Capital Contributions...		0	1,152
19	Purchases of Treasury Stock.....		0	0
20	Payments of Dividends or Capital Withdrawals.....		0	0
21	Changes in receivable from affiliate .....		(26,106)	(23,902) *
22			0	0
23	Net Cash Provided (Used) By Financing Activities.....		(26,216)	(22,750)
24	Net Increase (Decrease) in Cash and Cash Equivalents.....		419	16,880
25	Cash and Cash Equivalents at Beginning of Period.....		14,286	0
26	Cash and Cash Equivalents at End of Period.....		\$14,705	\$16,880
	CASH PAID DURING PERIOD FOR:			
27	Interest (Net of Amount Capitalized).....		\$64	\$0
28	Income Taxes.....		\$1,524	\$798 *

\* Prior year amounts changed to conform to current year presentation

The accompanying notes are an integral part of the financial statements.  
Valid comparisons cannot be made without using information contained in the notes.

# RIH ACQUISITIONS NJ, LLC (Atlantic City Hilton)

## STATEMENTS OF CASH FLOWS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2006 AND 2005

(UNAUDITED)

(\$ IN THOUSANDS)

Line (a)	Description (b)	Notes	2006 (c)	2005 (d)
	<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
29	Net Income (Loss).....		\$22,849	\$18,063
30	Depreciation and Amortization of Property and Equipment.....		14,413	7,069
31	Amortization of Other Assets.....		1,207	514
32	Amortization of Debt Discount or Premium.....		0	0
33	Deferred Income Taxes - Current .....		0	0
34	Deferred Income Taxes - Noncurrent .....		0	0
35	(Gain) Loss on Disposition of Property and Equipment.....		1	(96)
36	(Gain) Loss on CRDA-Related Obligations.....		985	580
37	(Gain) Loss from Other Investment Activities.....		0	0
38	(Increase) Decrease in Receivables and Patrons' Checks .....		(3,299)	(7,019)
39	(Increase) Decrease in Inventories .....		(321)	(488)
40	(Increase) Decrease in Other Current Assets.....		(4,570)	(1,532)
41	(Increase) Decrease in Other Assets.....		166	(196)
42	Increase (Decrease) in Accounts Payable.....		1,400	5,311
43	Increase (Decrease) in Other Current Liabilities .....		4,200	7,969
44	Increase (Decrease) in Other Liabilities .....		0	0
45	.....		0	0
46	.....		0	0
47	Net Cash Provided (Used) By Operating Activities.....		\$37,031	\$30,175

### SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

	<b>ACQUISITION OF PROPERTY AND EQUIPMENT:</b>			
48	Additions to Property and Equipment.....		(\$7,783)	(\$5,697)
49	Less: Capital Lease Obligations Incurred.....		296	0
50	Cash Outflows for Property and Equipment.....		(\$7,487)	(\$5,697)
	<b>ACQUISITION OF BUSINESS ENTITIES:</b>			
51	Property and Equipment Acquired.....		\$0	(\$378,988)
52	Goodwill Acquired.....		0	(83,767)
53	Other Assets Acquired - net .....		0	(8,557)
54	Long-Term Debt Assumed.....		0	0
55	Issuance of Stock or Capital Invested.....		0	487,046
56	Cash Outflows to Acquire Business Entities.....		\$0	\$15,734
	<b>STOCK ISSUED OR CAPITAL CONTRIBUTIONS:</b>			
57	Total Issuances of Stock or Capital Contributions.....		\$0	\$1,152
58	Less: Issuances to Settle Long-Term Debt.....		0	0
59	Consideration in Acquisition of Business Entities.....		0	0
60	Cash Proceeds from Issuing Stock or Capital Contributions.....		\$0	\$1,152

\* Prior year amounts changed to conform to current year presentation

The accompanying notes are an integral part of the financial statements.

Valid comparisons cannot be made without using information contained in the notes.

# RIH ACQUISITIONS NJ, LLC (Atlantic City Hilton)

## SCHEDULE OF PROMOTIONAL EXPENSES AND ALLOWANCES

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2006

(UNAUDITED)  
(\$ IN THOUSANDS)

Line (a)	Description (b)	Promotional Allowances		Promotional Expenses	
		Number of Recipients (c)	Dollar Amount (d)	Number of Recipients (e)	Dollar Amount (f)
1	Rooms	342,427	\$14,719	213	\$38
2	Food	1,082,496	19,109	36,491	547
3	Beverage	2,827,726	7,352	10	25
4	Travel	0	0	77,495	1,733
5	Bus Program Cash	542,094	10,461	0	0
6	Other Cash Complimentaries	791,743	30,928	0	0
7	Entertainment	163,324	4,083	1,242	154
8	Retail & Non-Cash Gifts	13,279	176	153,296	1,844
9	Parking	0	0	0	0
10	Other	24,613	408	160,992	3,319
11	Total	5,787,702	\$87,236	429,739	\$7,660

\*

\*No single item or service included in other exceeds 5% of the column total.

FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2006

Line (a)	Description (b)	Promotional Allowances		Promotional Expenses	
		Number of Recipients (c)	Dollar Amount (d)	Number of Recipients (e)	Dollar Amount (f)
1	Rooms	119,228	\$5,460	165	\$28
2	Food	392,344	7,053	15,392	231
3	Beverage	993,032	2,582	0	0
4	Travel	0	0	35,175	713
5	Bus Program Cash	192,238	3,760	0	0
6	Other Cash Complimentaries	280,534	10,931	0	0
7	Entertainment	57,081	1,427	203	25
8	Retail & Non-Cash Gifts	6,519	86	16,579	457
9	Parking	0	0	0	0
10	Other	8,970	170	44,056	1,149
11	Total	2,049,946	\$31,469	111,570	\$2,603

\*

\*No single item or service included in other exceeds 5% of the column total.



# RIH ACQUISITIONS NJ, LLC (Atlantic City Hilton) STATEMENT OF CONFORMITY, ACCURACY, AND COMPLIANCE

FOR THE QUARTER ENDED SEPTEMBER 30, 2006

1. I have examined this Quarterly Report
2. All the information contained in this Quarterly Report has been prepared in conformity with the Casino Control Commission's Quarterly Report Instructions and Uniform Chart of Accounts.
3. To the best of my knowledge and belief, the information contained in this report is accurate.
4. To the best of my knowledge and belief, except for the deficiencies noted below, the licensee submitting this Quarterly Report has remained in compliance with the financial stability regulations contained in N.J.A.C. 19:43-4.2(b)1-5 during the quarter.

11/15/2006

Date



Laura Palazzo

VP/CFO

Title

02461-11

License Number

On Behalf of:

RIH ACQUISITIONS NJ, LLC  
(Atlantic City Hilton)

Casino Licensee

**RIH ACQUISITIONS NJ, LLC (Atlantic City Hilton)**  
**NOTES TO FINANCIAL STATEMENTS**

**1. Basis of Presentation and Consolidation**

RIH Acquisitions NJ, LLC, a New Jersey limited liability company (the “Company”), owns and operates the Atlantic City Hilton (“ACH”), a casino/hotel located in Atlantic City, NJ. The Company is a wholly owned subsidiary of Resorts International Holdings, LLC, a Delaware limited liability company (“RIH”). The Company’s operations commenced on April 26, 2005.

On April 26, 2005, RIH acquired most of the assets and assumed certain liabilities of four casino properties, including the ACH, from Caesars Entertainment Inc. and Harrah’s Entertainment Inc. (the “Acquisition”). The debt incurred to finance the Acquisition is carried on the balance sheet of RIH and has not been allocated to the Company. The assets acquired and liabilities assumed of the Atlantic City Hilton as a result of the Acquisition were recorded, via a capital contribution, on the balance sheet of the Company. The Acquisition has been accounted for using the purchase method of accounting, and accordingly, the aggregate purchase price, including transaction fees and expenses, has been allocated based on the estimated fair value of the assets acquired and the liabilities assumed. The allocation of the purchase price is tentative and subject to change as estimates and other information materially changes.

The cash flows of ACH and the other casino properties acquired by RIH are the only source to fund the interest payments of the debt issued by RIH in connection with the Acquisition. Substantially all of the Company’s assets are pledged as collateral on the RIH credit facility, and the Company is named as a guarantor on RIH’s credit agreement.

In July 2006, due to a budget impasse in the New Jersey legislature, the governor of the State of New Jersey ordered a shutdown of non-essential state services, which included regulatory inspection of the Atlantic City casino industry. This mandatory shutdown resulted in the closing of casino operations for all Atlantic City casinos from July 5th through July 7th. The three day shutdown of casino operations had a negative impact on the Company’s revenues and results of operations for the third quarter.

**2. Summary of Significant Accounting Policies**

**Use of Estimates**

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Allowances for doubtful accounts arising from casino, hotel and other services, are based upon a specific review of certain outstanding receivables. In determining the amounts of the allowances, certain estimates and assumptions are made, and actual results may differ from those assumptions.

**Cash Equivalents**

Short-term money market securities purchased with original maturities of three months or less are considered to be cash equivalents. These securities are classified as available-for-sale, which are carried at fair value with unrealized gains and losses, net of tax, reported in other comprehensive income. The carrying value of cash equivalents approximates fair value due to the short-term maturity of these instruments.

**Allowance for Accounts Receivable**

Allowances for doubtful accounts arising from casino, hotel and other services, are based upon a specific review of certain outstanding receivables. In determining the amounts of the allowances, certain estimates and assumptions are made, and actual results may differ from those assumptions.

**Inventories**

**RIH ACQUISITIONS NJ, LLC (Atlantic City Hilton)**  
**NOTES TO FINANCIAL STATEMENTS**

Inventories of provisions, supplies and spare parts are valued at the lower of cost (first-in, first-out) or market.

**2. Summary of Significant Accounting Policies (continued)**

**Property and Equipment**

Property and equipment are stated at cost and are depreciated over their estimated useful lives reported below using the straight-line method.

Hotels and other buildings	35 – 40 years
Furniture fixtures and equipment	2 – 5 years

The provisions of SFAS No. 144 “Accounting for the Impairment or Disposal of Long-Lived Assets” (“SFAS No. 144”) requires, among other things, that an entity review its long-lived assets and certain intangibles for impairment whenever changes in circumstances indicate that the carrying amount of an asset may not be fully recoverable. SFAS No. 144 requires an impairment loss to be recognized only if the carrying amounts of long-lived assets to be held and used are not recoverable from their expected undiscounted future cash flows.

**Income Taxes**

The Company has elected to be treated as a partnership for federal income tax purposes: therefore, no provision or benefit for federal income taxes for the nine months ended September 30, 2006 has been recorded. New Jersey state income taxes have been calculated under an alternative minimum assessment of a percentage of gross revenues.

On June 30, 2003, the State of New Jersey amended the New Jersey Casino Control Act, effective July 1, 2003, to impose or increase certain taxes and fees, including a tax at the rate of 7.5% on the adjusted net income of casino licensees in calendar year 2002, payable in the state’s fiscal years 2004 through 2006, expiring on June 30, 2006. The amount of this tax for each licensee is limited to a maximum of \$10.0 million annually and a minimum of \$350,000 annually.

**Goodwill**

The Company has adopted Statement of Financial Standards (“SFAS”) No. 142, “Goodwill and Other Intangible Assets.” As a result, goodwill is not amortized and goodwill is tested at least annually for impairment. See Note 6.

**Impairment of Long-lived Assets**

When events or circumstances indicate that the carrying amount of long-lived assets to be held and used might not be recoverable, the expected future undiscounted cash flows from the assets is estimated and compared with the carrying amount of the assets. If the sum of the estimated undiscounted cash flows was less than the carrying amount of the assets, an impairment loss would be recorded. The impairment loss would be measured by comparing the fair value of the assets with their carrying amount. Long-lived assets that are held for disposal are reported at the lower of the assets’ carrying amount or fair value less costs related to the assets’ disposition.

**Revenue Recognition**

Gaming revenue is recorded as the net win from gaming activities, which represents the difference between amounts wagered and amounts won by patrons. Revenues from hotel and related services and from theater ticket sales are recognized at the time the related service is performed.

**RIH ACQUISITIONS NJ, LLC (Atlantic City Hilton)**  
**NOTES TO FINANCIAL STATEMENTS**

**2. Summary of Significant Accounting Policies (continued)**

**Self Insured Health Insurance**

The Company provides medical coverage for its non-union employees under a self-insured medical plan up to a maximum of \$200,000 per year for each insured person. Amounts in excess of these thresholds are covered by the Company's insurance programs subject to customary policy limits.

**Promotional Allowances**

Cash discounts based upon a negotiated amount with each customer are recognized as a promotional allowance on the date the related revenues are recorded. Cash-back awards given to a customer based upon earning points for future awards are accrued as the customer earns the points. The amount is recorded as a promotional allowance in the statement of operations. When estimating the amount of the accrual, the company calculates a redemption rate based on historical redemption rates.

The Company offers other incentive programs. These are gifts and other promotional items, the type and distribution of which is determined by management. Since these awards are not cash awards, the Company records them as gaming expenses in the statement of operations. Such amounts are expensed on the date the award can be utilized by the customer.

**Fair Value of Financial Instruments**

The carrying values of cash and cash equivalents are reasonable estimates of fair values because of the short term maturities of these investments. CRDA Deposits, bonds, and other investments are stated net of a valuation allowance reflecting the below-market interest rates associated with these investments; therefore the carrying values approximate their fair values.

**Advertising**

The Company expenses direct-response advertising at the time of the event. Costs associated with mailings for future promotions are included in prepaid expenses on the Company's Balance Sheet.

The Company expenses all other advertising costs as incurred. These costs are included in Selling, General and Administrative costs on the Company's Statements of Operations.

**Pre-Opening Expenses**

For the nine months ended September 30, 2006, the Company recorded \$98,000 of pre-opening expenses related to the transition of ownership of the property.

**RIH ACQUISITIONS NJ, LLC (Atlantic City Hilton)**  
**NOTES TO FINANCIAL STATEMENTS**

**3. Acquisition**

RIH and Caesars Entertainment Inc. and Harrah's Entertainment Inc. entered into the Purchase Agreement on September 27, 2004. Pursuant to the Purchase Agreement, RIH acquired substantially all of the assets and certain liabilities of ACH on April 26, 2005.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition (in thousands):

Cash acquired .....	\$ 16,886
Accounts receivable, net of allowances of \$878 .....	4,827
Inventories .....	1,045
Prepaid expenses and other current assets .....	1,168
Property and equipment acquired .....	378,988
Goodwill acquired .....	81,527
Intangible and other assets .....	11,988
	<u>496,429</u>
Liabilities assumed .....	(9,747)
	<u>\$ 486,682</u>

**4. Receivables**

Components of receivables were as follows at September 30 (in thousands):

	2006	2005
Gaming .....	\$ 13,438	\$ 9,873
Less: allowance for doubtful accounts .....	(1,809)	(2,050)
	<u>11,629</u>	<u>7,823</u>
Non-gaming:		
Hotel and related .....	698	963
Due from affiliates, net .....	46,652	23,902
Other .....	2,963	2,356
	<u>50,313</u>	<u>27,221</u>
Less: allowance for doubtful accounts .....	(69)	(20)
	<u>50,244</u>	<u>27,201</u>
Receivables, net .....	<u>\$ 61,873</u>	<u>\$ 35,024</u>

As a wholly-owned subsidiary of RIH, ACH is a party to a joint services agreement between affiliated companies including RIH, Resorts International Hotel, Inc. (which owns and operates Resorts Atlantic City) and Colony Resorts LVH Acquisitions, LLC (which owns and operates the Las Vegas Hilton). Under the terms of this agreement, if any of the companies that are parties to the agreement incurs costs in excess of its direct share or any expenses which are directly allocable to or incurred on behalf of one of the other companies, such excess costs will be reimbursed.

Certain executive, administrative and support operations of the Company and other affiliates are consolidated, including limousine services, sales and marketing services, purchasing, financial and other administrative departments. The costs of these operations are allocated to or from the Company either directly or indirectly or using various formulas based on estimates of utilization of such services. Management believes the methods used to allocate these costs are reasonable. The net amount of these charges was \$1.7 million for the nine months ended September 30, 2006. The operating results of the Company may be different if the Company operated autonomously and without these transactions with its affiliates.

**RIH ACQUISITIONS NJ, LLC (Atlantic City Hilton)**  
**NOTES TO FINANCIAL STATEMENTS**

**4. Receivables (continued)**

The Company transfers cash in excess of its operating needs to RIH on a periodic basis. RIH provides the Company with cash advances for capital expenditures and working capital needs. As of September 30, 2006, the Company had a net receivable from RIH of \$84.2 million for these cash transfers.

**5. Investments, Advances and Receivables**

Components of investments, advances and receivables were as follows at September 30 (in thousands):

	2006	2005
CRDA bonds and direct investments .....	\$ 10,391	\$ 10,533
CRDA deposits .....	8,954	6,381
Valuation allowance .....	(7,232)	(6,419)
	<u>\$ 12,113</u>	<u>\$ 10,495</u>

The New Jersey Casino Control Act, as amended, requires ACH to purchase bonds issued by the Casino Reinvestment Development Authority ("CRDA") or make other investments authorized by the CRDA, in an amount equal to 1.25% of RIH's gross gaming revenue, as defined.

The CRDA bonds have interest rates ranging from 3.5% to 7.0% and have repayment terms of between 20 and 50 years. ACH records charges to expense to reflect the below-market interest rate payable on the bonds it may have to purchase to fulfill its investment obligation at the date the obligation arises. The charges for the nine months ended September 30, 2006 for discounts on obligations arising in that period was \$985,000.

From time to time ACH has donated certain funds it has had on deposit with the CRDA in return for either relief from its obligation to purchase CRDA bonds or credits against future CRDA deposits. At September 30, 2006, ACH owned \$9.6 million face value of bonds, issued by the CRDA and had \$9.0 million on deposit with the CRDA. The majority of the Company's deposits have been pledged for specific projects.

**6. Property and Equipment**

Components of property and equipment were as follows at September 30 (in thousands):

	2006	2005
Land and land rights .....	\$ 84,600	\$ 84,600
Hotels and other buildings .....	261,046	256,474
Furniture, fixtures and equipment .....	48,281	39,552
Construction in progress .....	7,449	4,059
	<u>401,376</u>	<u>384,685</u>
Less: accumulated depreciation .....	(25,948)	(7,069)
Net property and equipment .....	<u>\$ 375,428</u>	<u>\$ 377,616</u>

**RIH ACQUISITIONS NJ, LLC (Atlantic City Hilton)**  
**NOTES TO FINANCIAL STATEMENTS**

**7. Other Assets**

Components of deferred charges and other assets were as follows at September 30 (in thousands):

	2006	2005
Goodwill .....	\$ 81,366	\$ 83,767
Definite-lived intangibles, net of accumulated amortization .....	1,161	2,108
Other .....	334	231
	<u>\$ 82,861</u>	<u>\$ 86,106</u>

In accordance with SFAS No. 141, "Business Combinations," the Company recorded goodwill of \$81.4 million representing the excess of the Acquisition cost over the fair value of the net assets acquired. Using an independent company to assist in the valuation of the tangible and intangible assets, the fair value of the assets was determined using a combination of a future cash flow method, a similar transaction method, and a replacement cost method.

**8. Other Accrued Expenses**

Components of other accrued expenses were as follows at September 30 (in thousands):

	2006	2005
Payroll .....	\$ 9,408	\$ 6,229
Unredeemed customer incentives.....	2,552	2,121
Gaming taxes and fees.....	1,894	942
Non-gaming taxes and fees.....	1,548	1,008
Other .....	4,985	2,755
	<u>\$ 20,387</u>	<u>\$ 13,055</u>

**9. Other Current Liabilities**

Components of other current liabilities were as follows at September 30 (in thousands):

	2006	2005
Unredeemed chip liability .....	\$ 1,809	\$ 1,245
CRDA obligation .....	1,102	1,066
Other .....	947	1,122
	<u>\$ 3,858</u>	<u>\$ 3,433</u>

**10. Income Taxes**

The Company has elected to be treated as a partnership for federal income tax purposes: therefore, no provision or benefit for federal income taxes for the nine months ended September 30, 2006 has been recorded. New Jersey state income taxes have been calculated under an alternative minimum assessment of a percentage of gross revenues ("NJAMA"). For the nine months ended September 30, 2006, the Company recorded expense of \$898,000 for the NJAMA.

On June 30, 2003, the State of New Jersey amended the New Jersey Casino Control Act, effective July 1, 2003, to impose or increase certain taxes and fees, including a tax at the rate of 7.5% on the adjusted net income of casino licensees in calendar year 2002, payable in the state's fiscal years 2004 through 2006, expiring on June 30, 2006. The amount of this tax for each licensee is limited to a maximum of \$10.0 million annually and a minimum of \$350,000 annually. For the nine months ended September 30, 2006, the Company recorded a provision of \$702,000 for this tax.

**RIH ACQUISITIONS NJ, LLC (Atlantic City Hilton)**  
**NOTES TO FINANCIAL STATEMENTS**

**11. Commitments and Contingencies**

**Litigation**

ACH is a defendant in certain litigation. In the opinion of management, based upon advice of counsel, the aggregate liability, if any, arising from such litigation will not have a material adverse effect on the financial position, results of operations, or liquidity of ACH.

**New Jersey Sports & Exposition Authority**

The twelve Atlantic City casino properties (the "AC Industry") and the CRDA have entered into an agreement with the New Jersey Sports & Exposition Authority (the "NJSEA") to provide funding to subsidize New Jersey's horseracing industry. In exchange for this funding, the NJSEA and the three active New Jersey racetracks will not conduct any casino gaming at the racetracks prior to January 1, 2009. As part of the agreement, the AC Industry will provide \$34 million over a four-year period to the NJSEA and must deposit another \$62 million into the Casino Expansion Fund (managed by the CRDA). The \$62 million will be derived from funds either currently on deposit or to be deposited with the CRDA pursuant to each casino property's investment obligation. The Company's obligation is equal to its fair-share of AC Industry casino revenues. The Company estimates this commitment over the four-year period to be a total of \$2,100,000, the first payment of which was made in November 2004 by the casino property's predecessor owner, Caesars Entertainment, Inc. The total estimated commitment will be charged to operations on a straight-line basis through January 1, 2009. Once the Company meets its deposit obligation related to its fair share of the \$62 million, the Company is eligible to receive funds from the Casino Expansion Fund for qualified construction expenditures. The Company has until December 31, 2014 to submit an application to exhaust its share of the Casino Expansion Fund. Any funds not transferred out of the Casino Expansion Fund by the required date will be transferred to funds on deposit with the CRDA pursuant to its ongoing investment obligations.

**Environmental Matters**

An independent environmental consultant performed a Phase I environment site assessment in accordance with American Society for Testing and Materials standards on the Atlantic City Hilton property dated November 18, 2004. In August 2004, the New Jersey Department of Environmental Protection, or the NJDEP, inspected the onsite BP Service Station which resulted in the detection of volatile organic compounds in excess of applicable regulatory standards. The Phase I report notes that this matter remains open and the future action is subject to regulatory agency requirements. At the location of a former high school building onsite, contaminated soils and groundwater associated with the removal of an underground storage tank were identified. The Phase I report notes that this contamination may extend beneath a public right-of-way. In addition, site impacts still remain from several underground storage tanks. The Company expects to manage these environmental conditions with the completion of additional site investigations and approval of remedial action work plans from the NJDEP. There can be no assurance, however, that the remedial activity for the Atlantic City Hilton property will not exceed the Company's estimates based upon the current limited available site information.

On July 21, 2005, an oil pipeline ruptured at the Atlantic City Hilton which resulted in an oil spill. The Company is in the process of resolving the issue in accordance with NJDEP and U.S. Environmental Protection Agency guidelines. At this time, the Company has no indication that surrounding areas of other properties sustained any damage.

**Licensing**

On April 19, 2006, the New Jersey Casino Control Commission (the "NJCCC") granted the Company an initial one-year casino license to operate ACH, subject to certain conditions. Previously, the NJCCC had issued interim casino authorization ("ICA") to the Company, effective as of April 25, 2005, to operate ACH through an approved trustee, for a period of up to twelve months, until the initial casino license was approved.